97-84041-11

New York times.

Emergency money...

[Philadelphia]

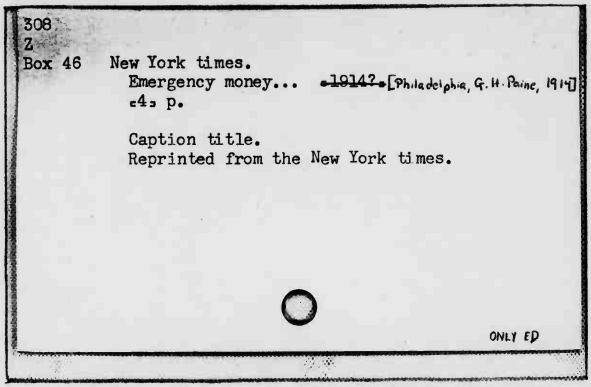
[1914]

97-84041-11
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD



RESTRICTIONS ON USE: *Reproductions may not be made without permission from Columbia University Libraries.*

TECHNICAL MICROFORM DATA

FILM SIZE: 35 mm REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-6-97 INITIALS: MS

TRACKING # : 21022

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

EMERGENCY MONEY

Inquiry among leading bankers in Wall Street has made it appear almost certain that the amendment to the National Bank act which was designed to give relief from a repetition of the tight money conditions which prevailed in 1907 will never be put to use. The law expires by limitation on June 30, 1914.

The collapse of 1907 is frequently referred to as the "rich man's panic" for the reason that the chief sufferers were men and institutions with ample credit that were unable to get money because of the severe currency stringency. A money panic is less serious than the troubles which follow a period of over-strained credit, and the resulting loss of confidence is more likely to be restricted to a limited zone, at least for the time being. Nevertheless the effects of such a panic, as was demonstrated in 1908 and 1909, may be far-reaching and extremely costly.

When conditions reached such a strained point that banks and individuals, instead of loaning out all of their available surplus funds to take advantage of the high rates of interest prevailing, tried to obtain protection for themselves by withdrawing their funds from circulation, call money advanced to 125 per cent., and even at that price it was impossible to obtain loans. Brokers and investors had valuable securities to put up as collateral, and the banks had a large amount of money to loan, but fear of the consequences of the increasing stringency kept the money locked in the vaults and safe deposit boxes.

The Aldrich-Vreeland bill was conceived and enacted for the specific purpose of preventing a repetition of such an unnatural state of affairs. It was put on the statutes as a temporary measure in the belief that before the date set for its expiration another Aldrich bill, aiming deeper, would take its place as a preventive of panics.

The Aldrich-Vreeland bill provided for the formation of National Currency Associations at the leading centres. These associations are inactive in ordinary times, but have powers of extending valuable and instant help in time of a

monetary stringency. At least ten National banks are required to form an association, and only one group is allowed in any city. An association is compelled to admit to membership all National banks in its field, providing their capital is unimpaired and their surplus not less than 20 per cent. The New York association embraces all of the National banks in the Clearing House and four others. The officers are: President, Frank A. Vanderlip, President of the National City Bank; Vice President, Richard Delafield, President of the Park National Bank; Secretary, Edward Townsend, President of the Importers and Traders; Treasurer, Alexander Gilbert, President of the Market and Fulton; Executive Committee: William Woodward, President of the Hanover National; Francis L. Hine, President of the First National; J. S. Alexander, President of the Bank of Commerce; Albert H. Wiggin, President of the Chase, and Gates W. McGarragh, President of the Mechanics and Metals.

The purpose of these National Currency Associations is the issuance of additional currency in time of stringency. The associations are permitted to render available, under the direction and control of the Secretary of the Treasury, as a basis for additional circulation, any securities, including commercial paper, held by the association.

For the purpose of obtaining this additional circulation any bank belonging to a currency association, and having circulating notes outstanding secured by the deposits of bonds of the United States to an amount not less than 40 per cent. of its capital stock, may deposit with and transfer to the association in trust for the United States such securities as may be satisfactory to the officers of the association. The association may then make application to the Controller of the Currency for an issue of additional circulating notes to an amount not exceeding 75 per cent. of the cash value of the securities deposited.

The Controller is directed to transmit this application immediately to the Secretary of the Treasury, and if in the latter's judgment business conditions in the locality demand additional circulation, and if he is satisfied with the character and value of the securities proposed, so that a lien in favor of the United States on the securities deposited and on the assets of the banks composing the association will be amply sufficient for the protection of the United States, he may direct an issue of additional circulation on behalf of the bank applying. Where securities deposited with the association consist of State, city, county, or other municipal bonds, circulating notes may be issued up to 90 per cent. of the market value of the collateral. On the other hand, a bank cannot get additional currency based on commercial paper in excess of 30 per cent. of its unimpaired capital and surplus.

M B N. May 8.17

While the Aldrich-Vreeland bill was designed primarily for the relief of the country in the event of another currency panic, its provisions were such as to lend themselves to the remedying of tight money conditions which might arise in the ordinary course of business. When call money was advancing a few weeks ago, and the Secretary of the Treasury was being importuned from some quarters to deposit Government funds here for the relief of the banks, it was suggested that the emergency currency might be brought into use, although there was no crying need for more money at that time. As "emergency currency," the money which would be released by the deposit of bank securities at the time of a threatened stringency, might bear a taint which would tend to still further unset confidence. To accustom the country to the use of this currency it was suggested recently that a number of banks apply simultaneously to the local National Currency Association for the application of the law to relieve the demand for funds this fall.

Officers of the association scouted this idea. They predict that the law will go off the books without ever having been put to practical test. They hope to see it succeeded by permanent legislation based on the central bank idea.

"What we need is a greater mobility of our reserves," said one of the association's officers. "Now, when trouble

threatens we all draw money from the central pot and lock up our reserves in our own vaults. What we should be able to do is to meet the increased demand for money by lowering our own reserves.

"The emergency currency law is of use only when there is plenty of credit but a shortage of currency. It was never intended to be used to break the price of money when it had been advanced by a demand for speculative purposes. The price of call loans might go to 30 per cent. without influencing any member of the association to apply for the release of more money, and, on the other hand, an actual shortage of currency might bring the law into use when business was being restricted through fear of impending trouble. In the four years that the measure has been on the books the officers of the association have never held a meeting except as required by law for organization purposes. No bank has ever asked for an issue of additional currency, and the application of the facilities provided for has never been considered by New York bankers."

In anticipation of calls for the emergency currency, the Treasury Department had printed a large amount of National bank notes bearing in the upper left-hand corner the words "Secured by the deposit of United States Government bonds or other securities," in place of the customary phrase, "Secured by the deposit of United States Government bonds." Lately these new bills have been issued interchangeably with the ordinary currency. With the expiration of the Aldrich-Vreeland law and the probable early retirement of all bank notes to make way for the smaller sized bills, considerations of economy led the Controller to save the cost of printing new bills when there was a large supply of the emergency currency in the Government's vaults. The appearance of these new bills, which do not differ from the old-style notes except in the way mentioned, started a rumor that some institutions had applied for their issuance under the provisions of the law.—*From The New York Times.*

Sent out with the Compliments of George H. Paine, Philadelphia

MSH # 21022

END OF
TITLE